NORMAL PRICE AS A MARKET CONCEPT

SUMMARY

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The differentiation of a market price and a normal price concept runs back as far at least as Adam Smith, and is preserved in the writings of the great majority of modern expositors of economic principles. Some such idea is practically indispensable in any formulation of the subject which purposes to make economic theory a constructive force in our social life and to set up standards for the appraisal of current economic processes. All actual prices are, of course, market prices, and the theoretical concept of a normal price merely sets forth some ideal of price adjustment toward whose achievement we may strive in ordering the practices and shaping the institutions of our production and exchange system. Perhaps, on the whole, we should fare better if we were to limit ourselves to expressions such as " the normalizing of market prices " or " normality of prices,"

thus indicating clearly that so-called normal prices are not some separate order of prices made outside the market, but are merely market prices which fulfil (or, if attained, would fulfil) certain theoretical specifications.

The test of that normality has been (in our price-motivated society) the adequacy of the price paid in the market to cover a wage which would secure the needful labor, interest which would secure the needful capital, and the necessary expenses for the purchase of raw material and the payment of insurance, taxes, and the like. All this, however, runs in terms of the adjustment of production to conditions of natural resources, human agents, technique, organization, or other factors of production, and (in its second and third phases) [1] of re-adjustment to changes in these conditions, and hence costs, of production. In short, writers have habitually given us a production-adjustment concept of price normality and have generally had their minds filled with industrialized processes of production, in which the flow of goods is continuous or, at least, has its stoppings and startings, its expansion and curtailment, largely under control toward the end and purpose of making supply such as to command a remunerative price.

This is all very well so far as it goes. But the concern has been too exclusively with the normality of supply conditions, and little or nothing has been said about the normality of the demand which comes to effective expression in the market, or concerning the adequacy of the market mechanism to bring about normal adjustments of actual supply and actual demand conditions. The stark cost-of-production concept of normal price is insufficient to the economist's need in attacking the

[1] I. e., (2) long-run normals, based on a supply which " can be produced by plant which itself can be remuneratively produced and applied within the given time," and (3) " *secular* movements of normal price, caused by the gradual growth of knowledge, of population and of capital, and the changing conditions of demand and supply from one generation to another." Marshall, Principles of Economics, p. 451.

problem of market systems and methods as a factor in price determination. And this inadequacy is particularly evident in the case of those extractive products which are not produced by highly industrialized processes and for which, therefore, the conditions of supply are highly adventitious. Gold during the nineteenth century would furnish an excellent case in point, were it not that its entanglement with monetary systems complicates its value phenomena unduly. The present writer's interest lies in the field of agricultural operations, and here we may find ample illustrations for our purpose.

The production of farm crops is subject to expansion or contraction of acreage, the enthusiastic propagation of plants and animals or the disheartened slaughter of livestock and uprooting of orchards. Likewise, the farmer may neglect his crop in midseason and even "let the weeds take it," or he may give it extra cultivation, fertilizer, or irrigation; animals may be "forced" for maximum growth or turned out to fend for themselves — all this in response to the inducements or discouragements which the farmer sees in the trend of market prices. These facts give us what basis there is for the application of current theories of normal price to the farmer's business situation.

But this is not the whole story. The farmer's choice of crops and his determination of the acreage of each having been made irrevocably at planting time, the weather enters as an erratic modifying factor at every subsequent stage of the productive process. Whatever the farmer's intentions, this is the final arbiter, deciding what volume of products shall come finally upon the market. Furthermore, that output, however ill-matched to buyers' needs, comes to market, thanks to the seasonal character of the industry, in some relatively

short harvest period — a fixed supply which cannot be increased until the whole long process of the suns has been gone through again, and whose flow upon the market can be checked but little even tho prices be sliding below the marginal or, indeed, the average cost of production. Even if some of the product be held back in local storage, its existence is known and discounted in the market, and prices must fall below the cost of harvest and marketing before it will pay the individual farmer to abandon a crop already grown.

These facts raise an entirely different, but highly important, question of normal adjustment, viz., that of a fixed supply to a given schedule of demand. Every price situation raises an issue of internal or market-distribution adjustment as well as an external or production adjustment. Even tho a given supply situation be highly abnormal so far as the future trend of profit-making production is concerned,[1] it might conceivably be adjusted perfectly within itself, so that every consumer secured his fragment of supply at a price no greater than that actually necessitated by the ratio of the total stock to total effective demand (transportation cost being assumed), and such that every producer secured a price which represented the full value of his produce in view of its scarcity in that particular year.[2] Such a concept of normality, in fact, lies at the very heart of our whole problem of rational market distribution, even as the older idea of a cost of production normal lies at the heart of the problem of rational adjustment of the productive process.

[1] E. g., a famine price, which would stimulate production and lower exchange values in the future; or a ruinous overproduction price, which would discourage further effort in the given line and in time raise the demand-supply ratio.

[2] With, of course, a similar limitation on the opposite side of each of these propositions. Obviously, this does not touch the issue as to whether the producer is thereby getting less than his cost of production or a fat profit above it.

Changing conditions are revealing the insufficiency of the emphasis which economists generally have placed upon the former of these phases of our price discussion. The distinctive character assumed by the economic exposition of any given period tends naturally to conform to, and hence be limited by, the run of attention of the epoch out of which they grow. The science of economics has been born and reared in a day wherein men have been concerned with the coming of the Industrial Revolution, the development of capitalism, and the exploitation of new natural resources. Consequently we have been concerned very largely with the problem of profit-seeking entrepreneurship and inclined to scrutinize closely the effectiveness of our business organization to equalize profits on all the various margins of economic endeavor. Hence a cost-of-production normal of prices.

Today, however, the burden of exchange distribution, under conditions of world trade and intense geographical specialization in our productive organization, becomes so heavy that our interest is to a considerable extent shifted from production to marketing problems (i. e., from the creation of form utilities to the creation of time and place utilities) and we feel the need of a careful statement of a market distribution normal of prices. In securing such a statement, we need merely to develop certain ideas always implicit in the equilibrium theory of value, but not made sufficiently explicit in the expositions of value and price as found in our college texts or even in more advanced theoretical works.

An entirely orthodox and very common method of procedure has been to state that market prices are prices actually paid in the market,[1] but to illustrate the

[1] Cf. Adam Smith, " The actual price at which any commodity is commonly sold is called its market price. It may be above or below or exactly the same with its natural

process by which such market prices are evolved by assuming conditions of complete dissemination of information and mobility of goods, in brief " perfect competition." The result has been that what was described was not an actual price, but a highly conventionalized price such as would exist if our markets were brought from their actual abnormalities of supply and demand to a normal adjustment of stocks to market demands.

Such a procedure has often been followed, no doubt, with the laudable intention of making the matter more simple for the student. But it is the writer's experience that, on the contrary, the student finds unreal and confusing this description of a market situation admitted by the expositor to exist only in the mind's eye. It seems better practice to take actual prices from real markets and give a practical worth to their analysis by seeing what is the individual peculiarity of their situation either as concerns supply or demand conditions, which causes the price at which goods change hands to be different from those in other markets dealing in the same wares. In other words, taking the actual price at which some units of supply are equilibrated with some units of demand, we proceed to test the normality of that price equation by examining its relation on both the supply and demand side to the whole supply situation and the whole demand situation to which it is connected through the mechanism of our market system.

price "; and J. S. Mill, " The temporary, or market value of a thing, depends on the demand and the supply; . . . and the value always adjusts itself in such a manner that the demand is equal to the supply. . . . The values and prices, therefore, to which our conclusions apply are mercantile values and prices; such as are quoted in prices-current; prices in the wholesale markets, in which buying as well as selling is a matter of business; in which the buyers take pains to know, and generally do know, the lowest price at which an article of a given quality can be obtained; and in which, therefore, the axiom is true, that there cannot be for the same article, of the same quality, two prices in the same markets." Many more recent writers have failed to impose equally discreet limitations upon themselves and hence have created the impression that their discussion of a conventionalized market price is supposed to apply to all prices actually arrived at in buying and selling operations.

Such an exposition of prices as market actualities which, however, may and should be tested as to the normality of their adjustment one to another in a great distributive system has been hindered rather than helped by some of the definitions of " market " which have been developed to take account of the expansion of our trading spheres. Much has been said about central markets and national markets and world markets, but a good deal of confusion exists among different writers as to whether we shall say that the world market means, for instance, in the cotton trade, Liverpool — a place where local bargains are made under the influence of world-wide forces. If such be the meaning of the term, Camden, Arkansas, is also a world market, since cotton is there bought and sold upon the basis of telegraphic reports from the nearby spot and future markets of the United States, which in turn are, through constant exchange of news and the making of transactions, kept in market contact with foreign trading centers. If, on the other hand, the word market means the whole " field within which the forces determining the price of a particular commodity operate," then, in the case of goods widely traded in, the old dictum " only one price in the same market at a given time " cannot possibly remain true except in the theoretically possible but highly improbable event that all trading points at some moment struck a range of mutually consistent prices (which would constitute for each of them the market-distribution normal at the moment). As a matter of fact, all actual markets, i. e., trading places, are inevitably local, and every market price partakes more or less of local characters, whether they be those of the great metropolis or of the most remote hamlet. But these local transaction centers are, furthermore, subtly fused into price-influencing relationships with each

other throughout the commercial sphere within which the commodity is dealt in.[1] Just how perfectly this is done depends upon the perfection with which our market system does its work of equilibrating market demands and producers' stocks.

However much the exchange machinery be oiled, it is not humanly possible for friction to be entirely eliminated. Time and distance make it impossible that all the buyers and all the sellers can ever get together in that complete and perfect competition which is necessary to secure " one price [2] in a market." Obviously, the statement is true enough as applied to prices on the Liverpool and New York Exchanges. But, be this price in

[1] Clearly we are somewhat handicapped here by the limitations of our vocabulary, being distinctly in need of two words, one to indicate the local trading point which is, except in the unusually isolated case, part of a larger perhaps even international trading sphere; and another to indicate this whole market compass, of which the local trading centers are component parts. In the absence of two such distinctive terms, we must be careful not to confuse our idea of market sphere and market center. Such confusion is no more necessary than it would be to allow our idea of a circle to be dominated by the center and neglectful of the circumference and intervening area. In the making of world prices the peripheral transactions of local producers' markets are no less significant and effective than the central trading at Liverpool, New York, and Chicago. While it is true that, through the dissemination of their quotations, a tide of influence moves downward from these larger markets to the most remote scenes of buying and selling activity all over the world, it is equally true that all these remote trading spots send their own tide of influence upward to constitute the sum total of the supply situation out of which the Liverpool, New York, or Chicago price must be made. The local cotton buyer brings a certain demand to expression in his market through the offer of a price adjusted by suitable differentials to the quotations of Liverpool, New York, and New Orleans. But this demand price is endowed with no power to requisition the stocks of local producers. The supply which comes forward at this price level may not be sufficient to keep the necessary stream of cotton moving toward the great market centers, and thus the local market, by drying up the source of supplies, forces the revision of bids and a new set of quotations at the world center of trade. The desire of a small group of wilful men in the New York cotton market to dictate a world price for cotton in the fall of 1914 and in 1915 was repudiated in the little Texas towns along the Brazos quite as effectually as the autocratic presumption of Prussia to make the world's maps was checked along the Marne at about the same time. But if the international trading center fails of bringing prices throughout the whole producing and marketing area into harmony with its own ideas of value, then we must be very cautious of the way in which we apply the older concept of market price to the newly attained realities of a world trade.

[2] The writer does not, of course, mean in such an expression that prices to be one over a wide marketing area would have to be the same in dollars and cents. Equivalence, after allowing for cost of handling, is what is meant. We even assume the propriety or competitive equalization of these charges — a matter which in practice we can by no means afford to pass unchallenged.

Europe equalized never so well to this price in America, it by no means gives us one price for the markets of the world. What of disparities among local markets and between them and the central market ? Has the price been so neatly adjusted in Baroda, Che-Kiang, Assouan, and Cabin Creek, Mississippi ? It comes down to the point, strictly speaking, that such a formula matches concrete reality only if the word market be defined as meaning one buyer and one seller or a compact group which, by the method of auction or otherwise, are enabled to bargain as one. Only so can we guarantee that there will be but one point for the meeting of the minds of the parties to make a price contract. With every enlargement of the scope of our market which weakens the perfect solidarity of the buying or selling group, there results a multiplication of equilibrium points at which parts of the stock of goods are likely to change hands, as a diversity of marketing circumstances and arrangements cause different effective supplies to come forward out of the total available stock to strike an equilibrium with certain discrete fragments out of the total demand schedule. The " one price " becomes increasingly a theoretical ideal which, to be sure, *may* be attained to by accident or good design, but from which actual market prices ordinarily depart by a wider or narrower margin.

Only relatively few of our price exchanges are mediated by such centralized, public, and competitive agencies as the stockyards, produce exchange, fruit auction, or similar highly organized mechanisms of trade. But such a situation is the only one expounded in much modern as well as nearly all classical discussion of market price. Herein is manifest the poverty of our theory, if it fails to set forth the persistently dual nature of the price-making process, consisting as it does of

local, actual, and in varying degrees, abnormal market prices, and of ideal or normalized market price concepts, in which producers' stocks are adjusted to consumers demands through the mediation of a perfectly functioning distributing mechanism. The market price which one finds in many economic textbooks is one already considerably normalized as compared with the widely varying prices in remote, ill-informed, and imperfectly competitive trading spots where many, if not most, primary exchanges are made. But these are just the market prices which business men are dealing with, and the economist can hardly be content to leave so large and significant a part of the exchange field outside the ministrations of his value theory.

We are concerned to test the normality of the prices which scattered producers are receiving or which local buyers are paying, and this both theoretically as a means of appraising our marketing system and practically as a means of making dealers' profits or of gauging our operations as private buyers or sellers. In the case of commodities (here farm products) whose market is not fed from a flowing stream but must draw from a reservoir periodically replenished with varying degrees of fullness, the test of normality at a given moment is not so much that of the adjustment of the rate of flow of the commodity from a producing plant as it is the distributive adjustment of that fixed volume of goods uniformly in proportion to market needs so that equivalent effective demand meets equivalent supply.

If market price "is a momentary or cross-section view" of the economic process, we should see to it that our section is complete and accurate, since we are concerned to see upon this crosscut surface the relation of one part to another at a moment, just as we wish in the longitudinal section to see the relation of one to another

over a period of time. This is precisely what the trader has in mind as he seeks a guide for his merchandizing operations. He attempts to see as fully as possible what is the condition of the whole market, as a basis for judging the acceptability of a particular price offer in which he is concerned. Is it "in line with the market?" This is his prime consideration. If as low as or lower than what he estimates to be the normal adjustment in view of all the supply and demand conditions, he will buy for his own use or from speculative intent. If "out of line with the market," as being above the exchange ratio which he conceives to be the market normal, he will cease buying so far as his consumptive needs permit, or will sell short for a future profit in the day of readjusted prices.

It is evident, further, that if this idea of a distribution normal of price under circumstances in which supply is temporarily fixed be kept in mind, we may proceed to talk also of the normal price of goods which have no rate of supply, whose volume is permanently fixed, which are, in short, non-reproducible. Such are Old Masters, rare editions, natural curios, and land. By abandoning the old cost-of-production limitation upon his normal price concept the economist may talk without shame of what the business man is constantly making his guide of action and speaking of intelligibly and correctly as the normal price of goods which have no cost of production.

What is the normal price of land? Why, clearly, the price necessitated by the adjustment of society's needs to a limited supply. If through the blindness of the public or the lack of shrewd real estate brokers, the demands for building-room pile up unduly in certain sections, while other suitable tracts are vacant or but poorly employed, the price of the former units stands

distinctly above and of the latter distinctly below the equilibrium point which would be struck were demands fitted to the limited supply upon a rational basis. In other words, the dealers in land have failed to perceive what was the normal adjustment of the good in which they deal, or they have been unable to effect it. On the other hand, we all know of clever real estate developers who have accumulated wealth by buying land which they have found available at a price below its normal as judged by the ratio of demand to the available supply and who have therefore found or developed a market at, or at least nearer to, that normal figure.

Similarly for old paintings, books, coins, or other objects whose means of production no longer exist. If an unknown painting by some great artist, now dead, chances to come to light in some attic or storeroom, and no one is there to apprise the lucky finder of the value which others set upon the canvas which he has unearthed, he is likely to sell it, if at all, at a figure far below the normal exchange rate which the art world puts upon this limited-supply good. Even after the picture gets out into the world of connoisseurs it will not have attained to its full normal value until such time as all potential buyers of such objects have become aware that it has been discovered and proved genuine and have had an opportunity of making their bids for its possession. Here as elsewhere, it is only when the mechanism of the market has succeeded in actually equilibrating total supply against the whole of effective demand that the resulting prices can be regarded as normal from the standpoint of market distribution.

This, as already mentioned,[1] does not imply that the price of such fixed-supply goods as are distributed far

[1] See footnote 2, p. 639.

from their place of production, and whose costs of transportation bear a relatively high ratio to the selling price should be priced at exactly the same figure in all those markets; but it does mean that the prices paid by the several buyers should not differ by more than those costs of transportation and allied charges. Nor does it mean that the price shall remain unchanged throughout the whole time in which the supply is fixed,[1] for there are carrying charges which must be added. However, the variations in the price of wheat or similar seasonal products from harvest time to the coming of the next crop should not vary by more than the amount of such storage, interest, insurance, and other charges. That is, the whole course of the season's distributive activities should be discounted in the market normal of any particular moment. In making their price adjustments at the beginning of the crop movement, both buyers and sellers are aware that not the whole of the season's yield is to be equated against the moment's demand. What each is trying to ascertain is what will be the equilibrium point of such a supply as nature has vouchsafed with such a demand as shall actually transpire. The more extraordinary the crop failure or the more unprecedented the year's abundance, the harder will it be for those on either side of the market to arrive early during the crop movement at what will be the "season's normal." Dealers know only that part of the demand schedule which they have previously explored. If unparalleled abundance presages a marked fall in the price, dealers are uncertain of the extent to which new uses for the commodity may develop and thus check the neces-

[1] In the case of agricultural products, with which we are primarily concerned, the use of the expression "fixed" supply is by no means entirely satisfactory, but seems to be necessitated by the demand for brevity. Actually the stock is, of course, dwindling as the season's consumption proceeds, but the supply is fixed in the sense that the rate of production cannot at the time be readjusted to relieve an existing scarcity or redundance.

sity for making extreme concessions in price in order to move the whole stock. Likewise, if scarcity dictates a high price, they are forced to guess how high it can rise before substitution will so impair demand as to leave them without the necessary number of buyers.

Under such circumstances, the professional trader and such producer and consumer groups as act with sufficient unity to give them weight in the market will seek to use every factor of uncertainty to warp prices as far as possible in the direction favorable to themselves. If both parties are in a position to back their market judgments to the limit, e. g., by holding their stocks off the market or by refraining from the purchase of supplies, the true supply and demand situation will shortly unfold itself, and an approximation at least to the distribution-normal will be brought about. If, however, one party be for one reason or another in a weak bargaining position, by virtue of his immediate need either to buy or to sell, the price may be thrown into a highly abnormal adjustment. This was clearly illustrated in the cotton crisis of 1914 and 1915. With the outbreak of the European war, the volume of demand both at home and abroad became highly problematical. Buyers at once tried to use this fact to their own advantage, and did indeed effect a severe depression of the market price level. There are always a large number of tenants and sharecroppers and not a few farm owners who must sell their cotton as soon as ginned, in order to pay pressing debts and provide for their own living expenses. This "distress" cotton continued to be dumped upon the market even when the price was forced as low as six or seven cents a pound. But bankers and merchants of the cotton section soon perceived that their own interests were jeopardized by this crowding of the price below what they conceived to

be the season's normal. As a result, they stepped in and urged farmers to hold for ten and a half or eleven cents and at the same time set about ameliorating the credit and storage difficulties so that this holding would be possible. Through the bankers' associations of the cotton states, acting with the Federal Reserve Board, facilities were provided whereby cotton could be warehoused and immediate needs financed on warehouse certificates. Once the flood of distress cotton was checked, the price rose to ten, and later, above twelve cents per pound.

This simply bears out the oft-repeated observation that speculative operations, whether in grain, cotton, eggs, or other storable products, can permanently succeed only in so far as they move with and not against the tide of actual underlying market conditions. This might be expressed by saying they prosper only as they work to draw prices toward the equilibrium point of the season's normal instead of trying to jockey them into a position off that actual center of gravity. This was well illustrated in Leiter's sad fiasco and Patten's successful *coup* in wheat.[1] At the same time, we should remember that the distribution normal of a seasonally fixed supply, even in which the whole course of the marketing season had been discounted by dealers and others, may change from time to time, as the factors upon which the price equilibrium has been predicated are altered by some accident or unforeseen change, before the whole distributive movement has been completed. Thus the normal level may be raised by the destruction of a significant portion of the stock through the burning of elevators or warehouses, the sinking of ships, the devastation

[1] The same point might be made in connection with the price of labor. A nice sense of what is the normal adjustment of the labor market at the moment tells the competent labor leader when the mere threat of a strike will produce results and guards him against the actual calling of a strike at a time when the supply and demand ratio in that particular class of employment would foredoom it to failure.

wrought by floods, or (particularly in the case of potatoes, apples, and similar products) the inroads of insects or fungus enemies of the stored goods, extraordinary heat or cold, and the like. It may be lowered by the advent of some depressing influence upon demand, such as the decreased purchasing power of some important section of the consuming public, due perhaps to unemployment or the lowering of wages. On the other hand, its level may be advanced by the education of the public concerning the merits of the given commodity, or even through the changes of fashion or the spread of a food fad.

The war has given us an unusually lively appreciation of the effect of such influences upon both the supply and the demand side of our price adjustment problems. All that need be said here is that the price which is normal today becomes abnormal in terms of the equation of tomorrow's altered supply to the predicted demand or of this known supply to a suddenly expanded or contracted demand. Obviously the force of such changes cannot be instantly transmitted to every local trading center, but it must be the test of an adequate market organization that the fluidity of both supply and demand be kept at the highest possible point, so that the sudden increase of demand at one point be met by the prompt drawing of supplies from other places in proportion as their supply-demand ratio has given them a lower level of price; and that any relatively plethoric supply, instead of exerting its depressing influence wholly upon the local market, shall be so redistributed as to dissipate its force in the lowering of the price level of all markets uniformly. Evidently, the action of shrewd traders or efficient marketing organizations and the effect of such a market news service as that being developed by the United States Department of Agri-

culture are potent forces operating in this direction, but with a notable difference in their effects. The private agency seeks to derive the maximum personal profit from its operations, and whatever corrective readjustment takes place is incidental, whereas the public intelligence service aims primarily at forestalling that abnormality of price out of which the professional trader would otherwise extract a profit-surplus.[1]

In summary, then, all prices may be represented as constituting a price body of three dimensions, its length connoting the time phase and its cross section embracing all prices for the given article at a moment. All these are actual or market prices, effected by the equating of some units of supply with an equal volume of effective demand. But every such price is to be appraised ideally as to the degree of its normality measured in terms of a perfectly functioning economic process. This critical examination in practice does and in theory should concern itself with two matters, not merely the proper adjustment of production for the market, but likewise with the proper adjustment of distribution in the market. Market adjustment normality demands that upon any cross section we shall have prices at a moment so adjusted to each other, rationally and consistently (in view of market charges necessary with existing equipment) that all supply and all demand units shall count each for its proper weight in the price equilibrium.

For intervals of time within which conditions of supply are fixed, the distribution-normal demands that time differences shall not be greater than those necessitated

[1] In the absence of such informational service, the consuming public is likely to be held up to a high level of price on the justification of local scarcity, at the same time that the producing section which has enjoyed a good growing season is being held down to as low a level as possible on the basis of that local abundance. The quick dissemination of thorough and accurate knowledge concerning market conditions which sometimes change rapidly and radically is necessary if prices are to be kept anywhere near their distribution-normal.

by carrying charges or justified by changes which have come about through the loss of part of the stock or through modifications in the demand. For agricultural products, the " season's normal " predicates the correct discounting of such conditions over the market distribution period until the next harvest but, where new factors are introduced during that time, the prompt revision of price schedules. In this longitudinal section are revealed also the alignment and realignment of prices with costs of production, whenever opportunity offers to increase the profitable or decrease the unprofitable line of production. Marshall has pointed out three phases of the production-adjustment normal of price, viz., short-time, long-time, and secular movements. A similar threefold division might also be made of the distribution-normal concept, as follows:

I. Prices normal in the sense of being the best equilibration of supply and demand possible with the imperfect market equipment of the present.

II. Prices normalized through adjustment by a market mechanism remodeled in the light of a previously unsatisfactory price situation. The improvements of storage and transportation facilities, better financial arrangements, and more efficient commercial organization of trading agencies exemplify this phase clearly in the case of agricultural products during the last few decades.

III. Prices readjusted through slow-moving changes in the market attitude of both producers and consumers, such as the education of sellers in the fundamental principles in accordance with which the price-making system operates and, more concretely, the character of demand in those places to which they look for a market; or changes in the standard of living, the rovings of taste and custom, and the education of buyers as to the in-

trinsic qualities of the goods which they consume. The study of the marketing of farm products, the teaching of home economics, and the Food Administration have contributed to our understanding of this third phase in recent years.

In II and III there is revealed a distinct *rapprochement* between the market-distribution and the production-adjustment concepts of normal price. We are well aware that readjustments in production react upon the distributing machinery, while every modification of the exchange process exerts a reciprocal influence upon the productive organization. Thus, defects in our marketing system may so depress the price of a given commodity at some points as to cause returns to fall below the cost-of-production normal, thus forcing certain of the less favored producers out of the field, at the same time that the normal equilibrium of existing supply and demand would set the price at a point high enough to continue them in the business on a prosperous basis. Or, on the other hand, an abnormal exchange situation might so inflate prices as to retain producing units whose withdrawal would be indicated, were the normalizing influence of profit-seeking adjustment on a cost-of-production basis not obscured by this abnormal market situation. Each change in production creates a new market problem; each readjustment of the exchange mechanism alters in some measure the terms of the producer's problem.

There should be no discontinuity in our concept of the normalizing process, from the most local and ephemeral adjustment of even one unit of supply to one unit of demand, up through the harmonizing of the single value estimate so struck with others elsewhere, so that the whole stock may be valued in exchange upon a consistent basis; from this to the yet remoter idea of mak-

ing this level of values fit harmoniously into the whole scheme of market values by being made (through the checking or acceleration of the rate of supply) to correspond with the market prices of their component cost goods. So to complement the cost-of-production with the analagous market-distribution normal is not to present merely an engaging abstraction for the theorist to toy with but, on the contrary, to enunciate the value principles which must govern the practical endeavors of business men in adjusting our machinery of market production and exchange. It expresses the essential truth which, sometimes crudely and of course intuitively, the farmer has had in mind when demanding relief from the erratic fluctuations of the markets in which his products are sold. It has lain back of the efforts of the Food Administration and other agencies to " stabilize " values during the war period. Likewise, it must underlie whatever truly sound work shall be done in the future toward improving the conditions of our agricultural organization, through equalization of shipments, dissemination of complete market news, intelligent proportioning of producers' efforts and outlays, upon which a truly healthy development of the industry must depend.

It is a highly practical proposition because it is sound economic theory.

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